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C. Saratchand

To cite this article: C. Saratchand (2022): A Theoretical Consideration of the Socialist Market Economy, International Critical Thought, DOI: [10.1080/21598282.2022.2054001](https://doi.org/10.1080/21598282.2022.2054001)

To link to this article: <https://doi.org/10.1080/21598282.2022.2054001>



Published online: 18 Apr 2022.



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A Theoretical Consideration of the Socialist Market Economy

C. Saratchand

Department of Economics, Satyawati College, University of Delhi, Delhi, India

ABSTRACT

The recent economic experience of countries such as China, Vietnam, Laos, etc., has invoked some interest in the economic system in these countries. This economic system which is often characterised as the socialist market economy is first conceptually distinguished from a centrally planned socialist economy as well as from a market socialist economy. Then a simple macroeconomic framework of a stylised socialist market economy is set out and its principal properties are highlighted. The paper concludes with a brief examination of the political economy of the socialist market economy.

ARTICLE HISTORY

Received 30 December 2021
Accepted 10 February 2022

KEYWORDS

Socialist market economy;
macroeconomic; investment;
political economy

1. Introduction

Bekkevold, Hansen, and Nordhaug (2020), in a recent study of socialist market economies, have pointed out that these economies have a noteworthy record not only in terms of economic growth but also poverty reduction and various indices of social attainment such as education, life expectancy, etc. However, they also indicate that socialist market economies are characterised by inequality. It may be mentioned here that the moniker socialist market economy is not uniformly employed in China, Vietnam and Laos. As mentioned in Bekkevold, Hansen, and Nordhaug (2020, 9):

The regimes in all three countries in different ways refer to a combination of socialism and market economy, but often using different terms. In China it is usually referred to “socialism with Chinese characteristics,” in Vietnam a “market economy with socialist orientation” or “socialist-oriented market economy.”¹ In China and Laos the term “socialist market economy” is also used, something that is less common in Vietnam.²

In the light of the experience of China, Vietnam, Laos, etc., in the last few decades it can scarcely be denied that the socialist market economy needs to be critically examined as a sui generis phenomenon.³ A large literature has developed on the theme of the socialist market economy⁴ among which Bekkevold, Hansen, and Nordhaug (2020) is an examination of different aspects of all three economies. Recent works which have examined the socialist market economy in China include Lin (2009), Xie, Li, and Li (2013), Li (2014), Xu (2016), Takeshita (2016), Brødsgaard and Rutten (2017), Weber (2018), Yeo (2020), Laibman (2020), and Zhang (2020). Works pertaining to Vietnam in this

respect include Beresford (2008), Gainsborough (2010), Schwenkel and Leshkovich (2012), Vuong, Semerák, and Vuong (2019).

It is indisputable that a necessary condition for the existence of a socialist economy is that public ownership of the means of production must be decisive.⁵ But the question of how this public ownership of the means of production is to be exercised is open. In this light, Dobb (1969, 126) argued:

A matter on which there is greater disagreement than on the question of definition is whether a socialist economy must necessarily be a planned economy, in the sense that major economic decisions (such as would be entrepreneurial decisions in a capitalist economy) are taken by some central governmental body, and embodied in a general complex of decisions, or conspectus, coordinated *ex ante* for a defined planning period. It seems natural to suppose that this must be so, since it is difficult to envisage any other coordinating mechanism to replace the rule of market forces in an atomistic system of individual ownership; and it is hard to envisage a state that has socialised production immediately dissolving it again into a plurality of independent sovereignties and entirely relinquishing control once more to the market. Yet among economists, at least, who have written upon the subject, many (if not most among “Western” economists) have advocated that something like this should be done. Of this we shall have more to say later. Even if we were to postulate forthwith that a socialist economy must *ipso facto* be a planned economy, this would be open to various interpretations, until we had specified the precise categories of decision that were centrally planned and the relation in which these stood to the operational functioning of lower units of command. The experience of actual socialist economies to-date, and change and experiment recently undertaken or in process of introduction, suggest that no clear-cut, logically defined frontier-line can be drawn between the province of centralised and of decentralised decision, and that concerning the expedient extent of the one and of the other there remain many problems for experience still to decide. In the terminology of contemporary discussion in those countries, the precise relation between plan and market remains undetermined.

In this light, the socialist market economy needs to be distinguished from both a centrally planned socialist economy and a market socialist economy. Before these broad conceptual differences are set out it may be apposite to briefly review theoretically the working of the centrally planned socialist economy and the market socialist economy.

Since the October Revolution in 1917, the economic dimension of the socialist system has often been primarily identified with a centrally planned socialist economy. A centrally planned socialist economy was meant to be composed of publicly owned firms (ignoring for purposes of stark exposition the caveats mentioned in the quotation from Dobb [1969] that was set out previously). A plan was in principle a direction to each such publicly owned firm, producing means of production (in the first place), to receive a certain vector of inputs and in turn produce a certain vector of outputs.⁶ The central planning board had two principal responsibilities, namely, governing the relations between publicly owned firms and finalising the plan. This implied that prices too were directly or indirectly subject to the influence of the central planning (Dobb 1977).

However, the rudimentary state of computation technology, during the period when the centrally planned socialist economy was in existence, meant that the plan was in general not consistent (Cockshott 2019).⁷ As a result, the plan worked as follows in practice: among the various sectors in such an economy, the central planning board identified certain priority sectors and strove to ensure that the actual vector of outputs of publicly

owned firms in such sectors was as close as possible to the planned vector of outputs of such firms or larger. The vector of outputs of publicly owned firms in non-priority sectors ended up being accommodated to this process of striving towards fulfillment of the production of the planned vector of outputs by publicly owned firms in the priority sectors. Further in a centrally planned socialist economy, at least a part of the means of consumption was circulated through a market.⁸ Investment in a centrally planned socialist economy was determined by an interactive process of decision making by the central planning board and publicly owned firms, often with a more decisive role for the former (Dobb 1977; Lebowitz 2012).⁹

There are some key differences between the centrally planned socialist economy and the socialist market economy. Firstly, unlike a centrally planned socialist economy, the socialist market economy has a private sector. Secondly, investment decisions by privately owned firms in a socialist market economy are governed by expected profits relative to expected rates of return from other types of accumulation while investment decisions by publicly owned firms are governed by a combination of profit and social considerations. Thirdly, private sector firms in a socialist market economy determine the prices of outputs that they sell while decisions regarding prices of output produced by publicly owned firms are determined partly by considerations of profits of such firms and partly by other social considerations. Fourthly, decisions concerning technical change in a socialist market economy are partly decided by (expected) profits and partly by social considerations.

A market socialist economy like a centrally planned socialist economy has publicly owned firms. But all publicly owned firms undertake uncoordinated decisions as regards investment (Patnaik 1988). As a result, all means of production are allocated through a market. Likewise all means of consumption, by and large, are also circulated through a market. This implies that all prices are determined by publicly owned firms but based on considerations connected to their individual profits. Unlike the centrally planned socialist economy, the market socialist economy has not existed in any country though some have argued that the economic system that existed in Yugoslavia approximated a market socialist economy (Estrin 1991).

There are at least two principal differences between the market socialist economy and the socialist market economy. Firstly, unlike a market socialist economy, a socialist market economy has a private sector. Secondly, unlike in a market socialist economy, investment is not entirely determined by uncoordinated decisions by individual firms in a socialist market economy for reasons that are examined in the next section.

2. A Simple Macroeconomic Framework of the Socialist Market Economy

As emphasised in section 1, a key characteristic of any socialist economy is the mode of determination of investment. In this section, some theoretical aspects of the determination of investment in a socialist market economy are considered. In subsection 2.1 some factors which contribute to the determination of investment by the private and public sectors are examined while subsection 2.2 involves a consideration of some theoretical issues concerning foreign investment in a socialist market economy.

2.1. Determinants of Public and Private Investment

The socialist market economy effectively consists of three sectors, namely, the public sector, the private corporate sector, and the private small enterprises sector. The firms in the public sector are governed by the state though the mode of governance has tended to vary over time in countries where the socialist market economy is prevalent.¹⁰ In the private corporate sector, which consists of both domestic and foreign private firms, there is some entry and exit of firms based on the tendency of the rate of profit to equalise between the different branches of production that this sector is composed of. The firms in the private small enterprise sector are not subject to the tendency for the rate of profit to equalise with different branches of production in the private corporate sector. In the rest of this paper, the role of the private small enterprises sector will be largely disregarded for the sake of simplicity which amounts to assuming that it is subsumed in the private corporate sector.

Socialist revolutions in the twentieth century took place in those countries which were not operating at the frontier of science and technology (Wallis 2006). In this context it may be noted that technology, in the first place, is organically interrelated to social relations and therefore the distinction between advanced and backward technologies cannot be consistently made outside the social context in which the technologies become available and are used (Marglin 1974). However, technology also involves the ensemble of relations between humankind and nature and therefore at least a part of the distinction between advanced and backward technologies has to take into account this additional dimension (Lange 1963).¹¹ By this second criterion, socialist market economies do not at present possess (in adequate volume) the full set of advanced technologies that are available in the metropolis. Given that it would have been prohibitively expensive for the countries, where the socialist market economy prevails, to indigenously develop most (but not all) of these advanced technologies, the only alternative for these countries to even partially obtain these advanced technologies was to allow foreign private investment in their economies.¹² The capitalists in the metropolitan countries who possessed most of these advanced technologies, especially in the decades of the 1970s, 1980s and 1990s, would not have agreed to any meaningful transfer of technology in the absence of their presence in production in the countries where the socialist market economy existed.¹³

Since the decade of the 1970s with the onset of neoliberalism, it is foreign institutional investment that has become more mobile when compared to foreign direct investment (Patnaik 2007b). In the absence of capital controls on this foreign institutional investment, it would not have been possible for the state in the socialist market economy to exercise autonomy in terms of public investment, fiscal policy, monetary policy, etc. (Chandrasekhar 2005). Consequently, the states in the countries where the socialist market economy exists have put in place effective capital controls. The implication of these capital controls for private investment will be set out below.

In the socialist market economy, the state also exercises effective control over the banking system with most of the domestic banks being state owned (Sun 2020; Lim and Nguyen 2019). In the absence of this dominance of state ownership of the banking system the aforementioned capital controls would not have been effective in bestowing policy autonomy on the state in the socialist market economy. The consequences of a

banking system that is dominated by state owned banks for investment and other macro-economic variables will be considered below.

The relatively high investment ratios in socialist market economies (when compared to capitalist economies) need to be accounted for by both the activities of the public and private sectors (Meyer 2011). The public sector, in socialist market economies, tends to be dominant not only in the banking system but also in strategic branches of production. Strategic in this context could refer to those branches of production which involve infrastructure or are related to defence or related sectors through which the state in a socialist market economy can decisively influence private investment. Public investment in the socialist market economy is high, firstly since the state that has policy autonomy due to capital controls can undertake an expanded programme of productive asset creation. However, besides capital controls, if the socialist market economy has a current account surplus then the ability of the state to undertake public investment is enhanced. Contrariwise, if the socialist market economy has a current account deficit then the magnitude of investment (including public investment) will be bounded by the maximum magnitude of loans that foreign creditors are willing to advance to entities in the domestic economy.

Investment by the private corporate sector involves at least two factors. Firstly, depending on the relative expected rates of return in different branches of production, capitalists tend to increase their investment more in those branches where the expected rate of return is higher. Secondly, every capitalist will tend to make a choice between investment and engaging in financial activities depending on the expected rates of return from both. If for simplicity it is assumed that there are only two branches of production in the private corporate sector denoted by A and B and one type of financial asset denoted by F , then the capitalist decides between investment and financial activities based on a comparison of expected rates of return from the three alternatives denoted by r_A^e , r_B^e and r_F^e .

High private investment in a socialist market economy is on account of a number of factors, all of which are linked, in one way or another, with the ability of the state to intervene in ways that are often not possible in capitalist economies. These include:

- (1) The state identifies priority branches of production in the economy. The maximum number of priority branches of production that may be so identified by the state depends on both the magnitude of output and the maximum magnitude of investment¹⁴ that is possible. These priority branches may be identified on the basis of requirements of import substitution, moving up the technological ladder,¹⁵ etc.
- (2) Investment in priority branches of production is led by public sector firms wherever possible.
- (3) Private investment in the priority branches of production is induced by the state in a number of ways (Saratchand 2020). Firstly, an increase in well-directed public investment in infrastructure may increase the expected profitability of private investment in the priority branches of production since the expected costs of production for private firms in these branches of production may fall sufficiently to make private investment adequately profitable in terms of expectations (“crowding in”). Without loss of generality let A be a priority branch of production. Then a rise in public

investment may, other things remaining the same, increase r_A^e and therefore private investment in branch A.

- (4) The state may offer to buy a certain magnitude of the output produced by (both public and private) firms in the priority branches of production (Kattel and Lember 2010). The resultant floor level of the temporal average of expected capacity utilisation in the priority branches of production will increase investment (both public and private) in the priority branches of production.
- (5) The state may engage in cross subsidisation of the priority branches of production. Thus taxes may be levied on non-priority branches of production (resulting in a decrease in expected post tax r_B^e) and subsidies offered to priority branches of production (resulting in a rise in the expected post tax r_A^e) which would lead to rise in private investment in the priority branches of production.
- (6) The state-owned banking system tends to support public investment through subsidised credit. The state-owned banking system also tends to offer subsidised credit to support private investment in the priority branches of production.
- (7) One policy initiative that may promote productive investment by the private sector is either a tax on financial activities (or other non-tax restrictions) that reduces its expected rate of return, i.e., r_F^e relative to the expected rate of return on productive investment in both sectors r_A^e and r_B^e . Other things remaining the same, this would result in higher productive investment. Capital controls ensure that private capitalists are not able to shift their wealth at will into activities that involve trading in foreign financial securities. Even if $r_F^e = 0$, i.e., some capitalists decide to hold money rather than engage in productive investment, as long as the state in a socialist market economy is able to induce an increase in r_A^e and/or r_B^e in aforementioned ways, it will be the case that fewer capitalists will want to hold money (or financial assets) rather than newly produced fixed capital.
- (8) If investment and output in priority branches of production rise then investment and output in non-priority branches of production will also rise. But if the extent of interdependence between priority and non-priority branches of production is not adequately high then the gap between the two sets of branches of production will widen. This inter branch inequality may not be fully overcome by the tendency for the rate of profit to equalise among different branches of production for a number of reasons. Firstly, some branches that are non-priority ones may involve private small enterprises which are not subject to this process of profit rate equalisation. However, it does not follow that enabling the takeover of these branches by the private corporate sector will automatically result in a narrowing of inter branch inequality principally because the consequences on aggregate demand and employment may be adverse.¹⁶ This issue will be dealt with later in some detail. Secondly, there may be some hurdles that slow down the entry of private capital into one or more non-priority branches of production. In as much as these hurdles are on account of issues in industrial organisation in these non-priority branches of production, appropriate intervention by the state in a socialist market economy may be required. Further, if there is a reasoned shift in the determination of priority branches based on a scientific development strategy then this inter branch divergence can be reduced over time.

- (9) Apart from all these processes, the state in a socialist market economy can also engage in counter cyclical fiscal policy which by ensuring a stable temporal average rate of expected capacity utilisation results in higher levels of r_A^e and r_B^e and therefore higher private investment.

Now a question may be raised regarding why these aforementioned policy initiatives are not (fully) possible in a capitalist economy. This question is addressed in section 3.

2.2. Foreign Investment in a Socialist Market Economy

The processes that underlie foreign investment in a socialist market economy are similar to domestic private investment in some respects but also involve some other processes that will now be set out. A metropolitan capitalist will decide between locating production capacity in the metropolis and the socialist market economy based on relative expected rates of return on productive investment in both locations. If the expected rate of return on productive investment in the metropolis is denoted as r_m^e and that in the socialist market economy is denoted as r_d^e , then some metropolitan capitalists will move a part of their production capacity to the socialist market economy if $r_d^e > r_m^e$.¹⁷ These expected rates of return may be specified as follows (where the expectations indicator e is left out for simplicity):

$$r_m = (1 - a_m - w_m l_m) u_m, \quad (1)$$

$$r_d = (1 - a_d - w_d l_d) u_d. \quad (2)$$

Here the rates of return have been calculated as a return only on fixed capital (assumed to be non-depreciating) for the sake of simplicity. Here a is a proxy for infrastructure related costs including costs of transportation, w is the real wage rate, l is the labour required per unit of output and u is the degree of capacity utilisation. Now the state in a socialist market economy can try to ensure that $r_d > r_m$ if all of the following conditions hold (or if at least one of them holds strongly enough) so that some foreign direct investment does take place in its territory: $w_d < w_m$, $l_d < l_m$, $a_d < a_m$ and $u_m < u_d$.¹⁸ But the outcome of this attempt by the state in a socialist market economy would depend, among other things, on the role of that economy in the world (in terms of the size of its output, its technological standing, etc.), relative to the capitalist metropolis.

In the initial stage of potential shift of some production capacity from the metropolis to the socialist market economy, let it be assumed not implausibly that:

- (1) world demand for the output produced from the relocated production capacity is assured, i.e., $u_m \approx u_d$ ¹⁹;
- (2) the technology involved is approximately identical, i.e., $l_m \approx l_d$ since only relatively simple extant technology based production capacity is considered for relocation;
- (3) the technological sophistication (including infrastructure) of the socialist market economy is limited relative to the metropolis, i.e., $a_m < a_d$.

In these circumstances, it can be ensured that $r_d > r_m$ only if w_d is sufficiently lower than w_m (Patnaik 2009). The resulting negative effect of income inequality on

consumption demand will be counteracted only if net exports from the socialist market economy rise sufficiently (Blecker 2002).²⁰

Moreover, as long as the socialist market economy is in an initial stage of attracting foreign direct investment based on wage rates that are lower than that in the metropolis, the trajectory of economic growth that will ensue will involve a rate of employment that will not rise adequately. This will be on account of a rapid rise in labour productivity since the technology underlying production, which is predominantly adopted from the metropolis, tends to be labour saving. The resulting rise in the share of private profits in output would in turn tend to induce the rich to either import luxury consumption goods or inputs to produce such goods domestically. As a result, there would arise a further downward impact on the rate of employment (Patnaik 2007a). In these circumstances, the state in a socialist market economy could employ a combination of two policy initiatives to deal with this issue, namely, a rise in social wages²¹ and the institution of an employment guarantee programme (Patnaik 2007a; Saratchand 2020). If a part of this profit is appropriated by foreign capital in the socialist market economy then this may be partly or wholly repatriated to the metropolis. The state in a socialist market economy would need to ensure that the expected rate of return for foreign capital in the domestic economy is sufficiently high relative to the metropolis to ensure that the extent of such repatriation is not very high.²²

If the socialist market economy is able to maintain a high ratio of investment to output then the size of output of the socialist market economy relative to world output will rise.²³ Further, if a rising share of this investment is materialised in capital stock that workers use in producing output that is higher on the technology ladder, then the implications for domestic inequality will change. In order to understand this, attention is once again drawn to Equations (1) and (2). If the size of the socialist market economy is large and some domestic location of metropolitan capital is one of the preconditions for accessing domestic demand for such output, then it may be possible that $u_d > u_m$. Further, if the level of infrastructural attainment in the socialist market economy exceeds at least some metropolitan locations for some types of higher technology based output, then $a_d < a_m$. As a result, if the productivity of labour in the production of such output in both locations is approximately the same, i.e., $l_d \approx l_m$ then it will be possible for the average wage gap between the capitalist metropolis and the socialist market economy to decline relative to what it was before production of relatively high technology output began in the socialist market economy,²⁴ i.e., $|w_m - w_d|$ can decline to some extent over time without resulting in $r_m > r_d$.

The ongoing attempt by the government of the United States of America (the leading country in the capitalist metropolis) to hinder the development of frontier technologies in China (the largest socialist market economy) is partly on account of the realisation by the former that if China succeeds in developing a wide array of frontier technologies then not only will China acquire a large measure of technological autonomy but the share of profits in the production of such output that accrues to firms of the United States of America will decline (Zhang 2020; Carballa Smichowski, Durand, and Knauss 2021). If the socialist market economy does manage to develop an array of frontier technologies, not only will it lead to greater policy autonomy vis-à-vis the metropolis, but also the possibility of lower domestic inequality (since the wage rate in the socialist market

economy would then be capable of rising at a certain rate without jeopardising exports even if they are based on private investment).

The socialist market economy, with a high share of investment to output, can maintain a high degree of technical change. In order for this possibility to be materialised, a socialist market economy could spend a large share of its investment on research and development. Here the public sector tends to play a relatively greater role in invention while both the public and private sectors could play a significant role in innovation. In order to induce greater innovation by the public and private sectors, the state in a socialist market economy could intervene in a number of ways: Firstly, by maintaining a high and rising degree of capacity utilisation, conditions conducive to rapid innovation by private sector firms may be brought about (Patnaik 1997); Secondly, the state could offer subsidies that are specifically oriented towards faster innovation; Thirdly, if public sector firms take the lead in adopting advanced technology then private sectors would be impelled to follow suit; Fourthly, technology transfer to the socialist market economy (and the consequent process of indigenous innovation) may be accelerated if the barriers erected by metropolitan firms to such transfer (such as ever-greening patents, restrictions on cross country collaborative research work, etc.) are progressively overcome by requiring them to enter into joint ventures with domestic firms (especially public sector firms).²⁵

One factor that has not been taken into account till now is the role of global value chains and their implications for the socialist market economy. At least a part of the production capacity that is located in the socialist market economy involves the production of inputs (either means of labour or objects of labour). If a socialist market economy has acquired an overwhelming share of the global production capacity for such output, then any attempt to shift its production to another location would require not only a geographical shift but also a recreation of the entire set of conditions that induced the shift of production capacity to the socialist market economy in the first place. If the alternative, non-metropolitan location is denoted as x then this shift will happen if $r_x > r_d$.

However, such a shift may not be easy, especially if the alternative non-metropolitan location is not itself a socialist market economy.²⁶ For instance, in the alternative location relative to the socialist market economy, the wage rate may be lower ($w_x < w_d$) but in all other respects, the alternative location may not be conducive to a higher expected rate of return. In other words, in the alternative location when compared to the socialist market economy, labour productivity may be lower ($l_d < l_x$), infrastructural attainment may be inferior ($a_x < a_d$), and domestic demand may be lower ($u_x < u_m$). Even if demand for the output produced using the relocated capacity is primarily global, the differences in labour productivity and infrastructural attainment may be too large to validate the shift.²⁷

Further, the state in the socialist market economy through various policies that promote clustering of various segments of value chains in its territory may discourage a shift of any one segment to another location. For instance, assume that a value chain consists of ten segments which are labelled sequentially as *I, II, III, ..., X*, and that segments *II, III, IV, V, VI, VII, and VIII* are located in a socialist market economy. Now an attempt by the state of another country to induce firms operating in one segment in the socialist market economy, say *IV*, to shift to its territory may not be successful for a number of reasons: (1) If the activity in segment *IV* is geographically distant from activities in

other segments then unless all other costs are sufficiently low, the expected rate of return in activities of segment *III* in the socialist market economy will exceed that in activities of segment *III* in the alternative location due to higher transport costs. (2) As argued by Gereffi and Fernandez-Stark (2019) and others, continuous non-price coordination processes transpire between different firms that are active in different segments of many (but not all) value chains. As a result, geographical non-proximity is likely to have deleterious consequences on expected rates of return on all such firms which is likely to result in a persistence of territorial clustering of various segments of a value chain. (3) The state of a socialist market economy, through its policies, may try to ensure a high rate of return for firms active in upstream (downstream) segments in a value chain that are located in its territory. As a result, firms active in the downstream (upstream) segments of that value chain are unlikely to exit from the socialist market economy since they too will have a higher rate of return when operating in this location.

In this section, some features of stylised socialist market economy have been set out in outline with special reference to the role of the state. Having considered some operational aspects of the functioning of the socialist market economy, the next section examines the political economy of the socialist market economy.

3. On the Social Formation in a Socialist Market Economy

The policy measures that have been attributed to the state in a socialist market economy in the previous section are not all necessarily implemented in a socialist market economy. In other words, this set of policies represent the full potential in such economies. Two questions arise in this context: Firstly, why is it the case that the full policy potential is not always utilised in a socialist market economy? Secondly, why is it not possible for these types of policies to be implemented in capitalist economies? The answers to both these questions are decisively linked to the political economy of the socialist market economy which is examined in the rest of this section.

In order to answer the second question, which is considered to begin with, it will be necessary to briefly review the concept of the social formation. A social formation may be loosely defined as an ensemble of two or more modes of production with one dominant mode of production (Wolpe 1980). As Althusser ([1969] 2014, 19) pointed out: “Every concrete social formation is based on a dominant mode of production. The immediate implication is that, in every social formation, there exists more than one mode of production: at least two and often many more.”

How is the dominant mode of production in a social formation to be identified? Farooqui argued regarding ancient Greece:

By the beginning of the classical period, c. 500 BC, the slave mode of production was well-established in a large part of Greece. Although a significant proportion of the surplus was appropriated in various ways from the free peasantry, which continued to play an important role in the economy, the dominant form of surplus extraction during the classical period was the exploitation of slave labour. (Farooqui 2010, 50)

Drawing on this formulation it is possible to argue that the dominant mode of production is one which has the greatest share in the total surplus product of the social formation in question (Saratchand 2021).²⁸

The socialist market economy (as well as capitalist economies) has many modes of production, including the capitalist mode of production (Saratchand 2021; Jabbour, Dantas, and Espíndola 2021). While it is fairly evident that the capitalist mode of production is dominant in capitalist economies, is it also dominant in the socialist market economy?²⁹ If the answer to this question is in the affirmative, then the differences in policy between capitalist economies and the socialist market economy would then need to be explained in terms of an approach that is known as the “varieties of capitalism” (Hall and Soskice 2009). However, that still leaves open the question of how this variety is to be explained?³⁰

An alternative to this approach, which is adopted in this paper, is to argue that in the socialist market economy, the capitalist mode of production is not dominant. In order to rigorously establish this claim for a given socialist market economy, the magnitude of surplus product would need to be established and the share of the capitalist mode of production in it would have to be determined both in a period and across periods. However, that would be outside the scope of this paper.³¹ Instead, in this section, some conceptual aspects of this hypothesis are examined: (1) The existence of a strong and vibrant public sector (state-owned enterprises of various types) enables the state in a socialist market economy to expand the magnitude of the surplus product over which it can exercise control. Apart from the ways mentioned in the previous section, the state in a socialist market economy can employ taxation and pricing of inputs (produced by public sector firms and employed by private sector firms) to increase the magnitude of the surplus product over which it can exert some degree of control. (2) Due to the previous point, private (not personal) property claims tend to be less impregnable from social control in a socialist market economy when compared to a capitalist economy (Laibman 2020).³² (3) Apart from the possible direct involvement that workers have in the state in a socialist market economy, workers also have legally enforceable rights in such economies.³³ However, the full potential of these rights cannot be realised if the socialist market economy is in the early stage of attracting foreign direct investment based on wages that are lower than competing locations for such investment, which is part of the answer to the first question that was posed in the beginning of this section.³⁴

In other words, what is known as industrial policy operates in fundamentally different ways in a socialist market economy when compared to a capitalist economy. In Wade’s definition:

Industrial policy—understood as targeted efforts to change the production structure of an economy in order to accelerate economic development, so it should more accurately be called “production transformation policy”—is an “inner wheel” whose effects depend on “outer wheels” of macroeconomic conditions and underlying political settlements. (Wade 2015, 68)³⁵

In a socialist market economy, the non-dominance of the capitalist mode of production is the fundamental feature of the “political settlement” that enables the state to shape the “macroeconomic conditions” that underlie its industrial policy. In a capitalist economy where the capitalist mode of production is dominant, the state cannot adequately carry out policies that are similar to those in a socialist market economy since the capitalist state is itself contingently reproduced as a component of the ensemble of processes that involve the accumulation of capital (encompassing both its international and

national dimensions). In other words, the state in a capitalist economy lacks the necessary “autonomy,” with respect to the capitalist class, to fully carry out industrial policies that are akin to those in a socialist market economy.³⁶

Turning to the first question, posed in the beginning of this section about why the full potential of a socialist market economy is not utilised, it is possible to argue that issues connected to the conjuncture play a key role in this regard. A reply to this question is intimately linked to a related question: Is a socialist market economy sustainable? In other words, will the capitalist mode of production continue to remain non-dominant in such an economy? P. Patnaik (2007c) had argued in the case of China that if the socialist market economy remains in the initial phase of relying on a strategy of attracting foreign direct investment based on relatively lower wages, then, (1) This downward pressure on wage levels will tend to persist. This would be the case if the socialist market economy is unable to make the transition to produce commodities whose export demand is not dependent only on lower price.³⁷ In other words, moving up the technological ladder is not only a way to try and increase per capita income but also to ensure the sustainability of the socialist market economy. (2) The beneficiaries (in the private sector) of this initial phase are unlikely to easily acquiesce in any redistributive measures that favour workers. If this factor does take hold, then the socialist market economy will be undermined.³⁸ Contrariwise, the state in a socialist market economy would perforce have to “discipline”³⁹ the private sector in order for the socialist market economy to be viable. The extent of this ability of the state in a socialist market economy to “discipline” the private sector would no doubt be related to the magnitude of the public sector that is not merely a prop of the private sector (as is the case in capitalist economies). (3) External demand for exports of the socialist market economy may reduce due to a crisis in the world economy or due to adverse policy moves by one or more states in the metropolis. In order to deal with this the state in a socialist market economy could undertake the following measures: Firstly, enhance domestic demand on the basis of higher wages that would become possible by moving up the technological ladder (involving greater investment) which would also enhance the sustainability of the socialist market economy as mentioned before⁴⁰; Secondly, ensure one or more reliable (often domestic) suppliers of key inputs, especially involving frontier technologies⁴¹; Thirdly, undertake policies to closely enmesh itself into global value chains. While the success of this effort depends partly on the size of the socialist market economy in question it would also be contingent on the extent of strategic autonomy exercised by this state.

At least three theoretical questions remain for future work in this research direction: How does the state in a socialist market economy regulate public sector firms (Yeo 2020)? How does this differ from what was the case in centrally planned socialist economies? What are the differences in the role of workers in the socialist market economy and the centrally planned socialist economy? An examination of these questions would aid in the advancement of the understanding of the issues that were broached in this paper.

Notes

1. Boer (2021b) provides a recent detailed examination of socialism with Chinese characteristics.
2. However, it is also the case that content of socialism is not exhausted by its economic dimension.

3. Saratchand (2020) had argued that the absence of a large scale privatisation programme, especially in terms of the public sector's share in output, is one indicator of why any characterisation of China as a capitalist economy would be inapposite. A recent critique of the notion that China is not a socialist economy is set out in Boer and Yan (2021). Further an evaluation of China or Vietnam or Laos as a state capitalist or dirigiste economy is also contradicted by widespread reports about the "discrimination" faced by the (especially foreign) private sector in China. Dirigisme after all was about the use of the capitalist (or capitalist led) state to try and further the accumulation of capital and in the process contingently reproducing both (Ghosh 1995).
4. Only the relevant literature in the English language will be considered in this paper.
5. This issue of the definition of decisiveness of public ownership of the means of production is taken up for discussion in section 3.
6. But Dobb (2008, 159) pointed out:

But experience has also shown that there is a place for market-relations in the supply of producers' goods internal to industry, both as regards contractual trading relations (instead of centralised direct allocation) between industries and industrial enterprises and as regards a considerable range of detailed decisions about output that are best decentralised to the enterprise level (these latter being governed by market decisions in the shape of khozraschot or balance-sheet considerations, costs and prices, credit-facilities, and the like). Exactly where the line is to be drawn between centralised decision and decentralised one, although partly a question of principle, is, I believe, in large degree a matter of experimentation.

A retrospective examination of the debates on the role of the market in centrally planned socialist economies of Eastern Europe is available in Boer (2021a).

7. Cockshott (2019) argues that the problem of computing a feasible plan is now computationally tractable.
8. Basic needs (arguably nutrition, health, education, etc.) were often provided as per a non-market social process (of estimating need), subject to feasibility.
9. Lebowitz (2012) in fact distinguishes between three agents in a centrally planned socialist economy: the central planning board, the managers of publicly owned firms and workers in publicly owned firms. Patnaik (1997) argues that the problems (and eventual demise) of the centrally planned socialist economy were due to the working of such economies which resulted in the depoliticisation of workers.
10. Yeo (2020) provides one perspective on how the Chinese state governs state owned enterprises.
11. It also follows that over time, the development of new technologies would depend on the mode of employment of existing resources and the sustainability of the production processes in which these technologies are directly or indirectly incorporated. Wallis (2000) provides a discussion of the role of technology in a socialist economy.
12. It is arguable therefore that the recourse to a socialist market economy is one type of defensive policy strategy available to the socialist project when it has attained state power in a *few* countries in a world that is dominated by the capitalist system.
13. There were also some trends at work in the metropolitan countries to partially relocate production capacity in some branches of production involving low and intermediate levels of technology to non-metropolitan countries (Hymer 1982; Kozul-Wright and Rowthorn 1998). Malkin (2020) discusses subsequent developments with special reference to the role of China in world economic activity. But a detailed consideration of these trends is outside the scope of this paper.
14. The maximum magnitude of investment that is possible may be determined by either the minimum level of consumption (with due account of how much income inequality is socially acceptable) or the state of the balance of payments.
15. Reference to a technological ladder does not imply that the past trajectory of technical change in the metropolis will always be replicated in every country.

16. If the expected rate of return in the non-priority branches of production declines (relative to its previous level) and small private firms in these non-priority branches cannot enter the priority branches of production due to various barriers to entry (such as minimum capital required), then the owners of these firms may choose to hold financial assets or money which will, other things remaining the same, reduce aggregate demand, output and therefore employment.
17. The expected rate of return on financial activities, in this context, will be considered in the following.
18. The variables in question, namely, w , l , a and u may not be independent of each other. Thus the state in a socialist market economy may not be able to achieve independently determined target levels of all of them.
19. Here it is being assumed that geographical location of production capacity does not determine market access. This is not historically inapposite since a significant destination of output produced using this production capacity was the metropolis.
20. The political economy consequences of this increase in inequality are briefly considered in section 3.
21. Some issues concerning the practice of social wages are dealt with in Shaikh and Tonak (1987).
22. There would also arise a related problem of “round-tripping.” It involves the repatriation of profits appropriated by foreign capital in the domestic economy to the metropolis and its re-entry into the domestic economy as nominally fresh investment. This phenomenon will arise if the expected rate of return on new investment by foreign capital is often higher than that on re-investment of profits by existing foreign capital in the domestic economy. An offer of symmetrical conditions for deployment of fresh and existing foreign capital may have excessively adverse consequences on the tax revenue of the state. However, the socialist market economy could discourage this type of round-tripping if its domestic market is sufficiently large and if the extent of access to this market is linked to re-investment of foreign capital. Therefore this policy option may not be fully available to the state in the initial phase of growth of a socialist market economy.
23. It has been assumed here that there is always some surplus labour that can be drawn on to produce the increasing level of output in the socialist market economy. This will be the case as long as the rate of growth of labour productivity is sufficiently high or if immigration is possible or if there is an adequate (policy supported) increase in fertility.
24. If the wage rate in the capitalist metropolis declines as a result of this shift or other factors that are characteristic of the neoliberal project (Barradas 2019), then the average wage gap between the capitalist metropolis and the socialist market economy may decline further.
25. In the absence of the requirement to enter into joint ventures with public sector firms, metropolitan capitalist firms tend to choose, as joint venture partners, the relatively smaller domestic private firms which are less able to both surmount the hurdles to technology transfer and engage in the resultant indigenous innovation process.
26. Even if the alternative location is another socialist market economy this second socialist market economy need not be one where the expected rate of return on such relocated production capacity is necessarily higher.
27. If in a value chain a clutch of sequential activities are in a socialist market economy, if one activity in this sequence is sought to be relocated to an alternative location the transportation and other costs of coordination may be too significant to induce such a shift.
28. Since the surplus product is heterogeneous in terms of output composition and concrete labour is also heterogeneous, the computation of a greater or lesser share of the surplus product in a social formation would require a scalar estimation of the total magnitude of the surplus product.
29. This question was posed in Saratchand (2020).
30. Differential experiences of capitalist economies may be attributed to two interdependent factors (Patnaik and Patnaik 2021): the organic interaction between different capitalist economies and the organic interaction between different modes of production in a social

- formation where the capitalist mode of production is dominant. Saratchand (2021) terms the social formation where the capitalist mode of production is dominant as bourgeoisdom.
31. It will be ill suited to such an exercise to confine oneself to juridical concepts of ownership in a socialist market economy, due to issues such as private property claims that tend to be less impregnable from social control when compared to capitalist economies, taxation of the private sector, interest paid on loans advanced by public sector banks to private firms, etc. Pei (2014) seeks to argue that the share of the public sector in China, broadly defined, has a dominant share in the productive assets of the economy.
 32. In this regard, it was argued in Saratchand (2020) that in China, the state is engaged in a quest to extend social control over the functioning of private sector firms by establishing party cells, etc., inside these firms. Likewise the system of joint ventures between domestic (public sector) firms and foreign firms not only enables technology transfer but also gives effect to some restraints on metropolitan capital (from acting in ways to undermine the working of the socialist market economy).
 33. Laibman (2020) argues in the case of China that workers in the public sector have working conditions that are superior to that in the private sector. Also migrant workers in urban areas have an alternative source of income based on their collective property rights in rural areas. It may also be added that the larger the share of employment in the public sector with respect to the total labour force, the greater will be the ability of workers employed in the private sector to secure higher real wages.
 34. This is also the period when the capitalist takeover of the state in the country under discussion is most possible but not inevitable. The prevention of this takeover involves a whole host of measures (Cheng and Liu 2017). For instance, Weber (2021) examines the process through which shock therapy was averted in China. Among these measures to prevent capitalist takeover, ensuring that the capitalist mode of production does not become dominant is the key. A counterpart of this process is the debate over ideas involving Marxist and bourgeois approaches to the socialist market economy. Two views on this issue in the case of China are presented in Pei, Yang, and Yang (2019) and Cohn (2020).
 35. Naughton provides a discussion of industrial policy in China. He defined industrial policy as follows: "Industrial policy is any type of selective, targeted government intervention that attempts to alter the sectoral structure of production toward sectors that are expected to offer better growth than would occur in the (non-interventionist) market equilibrium." He goes on to make the astonishing claim that: "Until 2006, China never had 'industrial policy'" (Naughton 2021, 19). However, a discussion of this claim is outside the scope of this paper.
 36. In this respect, a distinction may be made between the fate of industrial policy in Japan and China. It is arguable that the international dimension (US imperialism) has played a greater role in the relative decline of industrial policy in Japan when compared to China.
 37. Thirlwall (1979) clearly distinguishes between price and income in the demand for exports.
 38. The state in a socialist market economy would need to combat this possible undermining by administrative measures that ensure that it can continue to "discipline" the private sector. Besides, other participative mobilisation measures of the working people would also play a key role in this respect.
 39. This "disciplining" principally involves the ability of the state in a socialist market economy to decisively influence the actions of the private sector along the lines set out in the previous section.
 40. It is arguable that this underlies the policy of "common prosperity" in China.
 41. This would be possible only for those socialist market economies whose research and development system is comparable to that in the metropolis. It is possible to argue that this is a crucial component of the "dual circulation" strategy in China. For instance, Fang, Collins, and Yao (2021) point out that: "In order to cope with multiple crises, China is shaping a new dual circulation development pattern, in which domestic economic circulation is regarded as the principal focus and foundation, thereby buffering and complementing the external circulation."

Acknowledgements

A previous version of this paper was presented at the Third World Conference on Marxism, July 17–18, 2021 at the Peking University, Beijing, China.

Disclosure Statement

No potential conflict of interest was reported by the author(s).

Notes on Contributor

C. Saratchand is Professor at the Department of Economics, Satyawati College, University of Delhi, Delhi, India. His main areas of interest are in political economy and macroeconomics.

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